

THIRD WAIVER AND AMENDMENT TO THE MASTER TRANSACTION AGREEMENT¹

This THIRD WAIVER AND AMENDMENT dated as of August __, 2015 (the “Waiver and Amendment”) among SYNCORA HOLDINGS LTD. (formerly known as Security Capital Assurance Ltd) (“SHL”), a Bermuda exempted company, SYNCORA GUARANTEE INC. (formerly known as XL Capital Assurance Inc.) (“SIG”), a New York insurance company, SYNCORA CAPITAL ASSURANCE INC. (“DropDownCo”), a newly formed New York financial guaranty insurance company and a wholly-owned subsidiary of SGI, those portfolio trusts that are Affiliates of SGI that are party to MTA II (as defined below), and the CDS Counterparties.

WHEREAS, SHL, SGI, DropDownCo, certain Portfolio Trusts that are Affiliates of SGI and the Counterparties to Credit Default Swap Agreements with SGI and affiliates of SGI entered into a certain Master Transaction Agreement dated as of April 26, 2009 (as amended, “MTA II”);

WHEREAS, the parties hereto (the “Parties”) wish to amend and restate (or waive) certain provisions of MTA II, as set forth herein;

WHEREAS, the Parties wish to take such actions necessary to give effect to the foregoing;

NOW, THEREFORE, in consideration of the premises and the covenants and agreements contained herein and in MTA II, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties agree as follows:

Section 1. Definitions. Capitalized terms not otherwise defined in this Waiver and Amendment shall have the meanings ascribed to them in MTA II.

Section 2. Amendments.

2.1. The definition of Minimum CDS Counterparty Threshold in MTA II shall be amended and restated in its entirety to read as follows:

“Minimum CDS Counterparty Threshold” means:

- A. **Joint Decision Matters** - With respect to any amendment, alteration, supplements, waiver or modification to Sections 5.13(c), (d), (f), (g)(B), (g)(C), (i) or (j) of this Agreement, holders of greater than 50% (i) of the then-outstanding principal amount of the SGI Surplus Notes, (ii) of the then-outstanding notional exposure of the Assigned Swaps (or, with respect to any particular Assigned Swap as to which an

¹ The following is the actual Waiver and Amendment document that all parties will be asked to sign, reflecting the blackline changes to MTA II that have been provided. Signature pages will be circulated separately.

- “Early Termination Date” has occurred (and in the place of such Assigned Swap), the corresponding P&I CDS (if any)), (iii) in aggregate number of the Persons that then hold the SGI Surplus Notes and (iv) in aggregate number of the holders of the then-outstanding exposure of the Assigned Swaps (or, with respect to any particular Assigned Swap as to which an “Early Termination Date” has occurred (and in the place of such Assigned Swap), the corresponding P&I CDS (if any)); provided, that, with respect to any amendment, alteration, supplements, waiver or modification to Section 5.13(k)(iv) of this Agreement, holders of (i) a majority in principal amount of the SGI Long Term Surplus Notes, (ii) a majority in principal amount of the SGI Short Term Surplus Notes and (iii) a majority in notional amount outstanding of P&I CDSs then in effect (and as to which an “Early Termination Date” has occurred with respect to the corresponding Assigned Swap).
- B. **SCAI Only Matters** - With respect to any supplements, waiver or modification to Sections 5.13(a)(ii), (e) (in the case of (e), solely if such supplement, waiver or modification is adverse to DropDownCo as determined by its board of directors), (g)(A), (g)(D), (g)(E) or (h) (in the case of (h), solely with respect to supplements, waivers or modifications affecting DropDownCo) of this Agreement, holders of greater than 50% (i) of the then-outstanding notional exposure of the Assigned Swaps (or, with respect to any particular Assigned Swap as to which an “Early Termination Date” has occurred (and in the place of such Assigned Swap), the corresponding P&I CDS (if any)) and (ii) in aggregate number of the holders of the then-outstanding exposure of the Assigned Swaps (or, with respect to any particular Assigned Swap as to which an “Early Termination Date” has occurred (and in the place of such Assigned Swap), the corresponding P&I CDS (if any)).
- C. **SGI Only Matters** - With respect to any supplements, waiver or modification to Sections 5.13(a)(i), (e), (h) (in the case of (h), solely with respect to supplements, waivers or modifications affecting SGI), (k)(i), (k)(ii), (k)(iii), (k)(v), (k)(vi) or (k)(vii) of this Agreement, holders of a majority in principal amount of (i) the SGI Long Term Surplus Notes and (ii) the SGI Short Term Surplus Notes, in each case until such time all such class of Surplus Notes has been paid in full.

2.2 The definition of Permitted Liens in MTA II shall be amended and restated in its entirety to read as follows:

“Permitted Liens” means (a) Liens for taxes not yet due and payable or which are being contested in good faith by appropriate proceedings and for which adequate reserves have been established on the Financial Statements in accordance with GAAP or SAP, as applicable, (b) statutory Liens of landlords, (c) Liens of carriers, warehousemen, mechanics, materialmen and repairmen incurred in the ordinary course of business consistent with past practice and not yet delinquent, (d) in the case of real property, zoning, building, or other restrictions, variances, covenants, rights of way, encumbrances, easements and other minor irregularities in title, none of which, individually or in the aggregate, (i) interfere in any material respect with the present use of or occupancy of the affected parcel by the Syncora Parties, (ii) have more than an immaterial effect on the value thereof or its use, or (iii) would impair the ability of such parcel to be sold for its present use, (e) Liens securing obligations permitted to exist under Section 5.13, (f) Liens in connection with Remediation Efforts where the

collateral granted is not disproportionate to the obligations secured thereby and the collateral granted by DropDownCo does not exceed \$100 million in the aggregate, (g) Liens incurred in connection with SGI's and DropDownCo's liquidity management programs and hedging under their respective derivative use plans, the collateral for which does not exceed \$150 million in the aggregate at any one time, (h) Liens incurred in connection with activities permitted or contemplated by this Agreement or any Ancillary Agreement, and (i) the Liens set forth on Schedule 5.13-B hereto.

2.3 Sections 5.13(b) and 5.14 of MTA II are hereby deleted in their entirety.

2.4 Section 5.13 of the Agreement is hereby amended to add the following:

“(k) Except as set forth on Schedule 5.14, until such time as the principal amount of the SGI Surplus Notes, and all accrued and unpaid interest thereon, have been paid in full in cash, SGI agrees to observe and comply with the following covenants and agreements:

(i) SGI will not make any distribution, whether in cash, property, securities or a combination thereof, to the holders of the SGI Long Term Surplus Notes (in their capacities as such) or pay, or commit to pay, or directly or indirectly redeem, repurchase, retire, prepay, convert, exchange or otherwise acquire for consideration, or set apart any sum for the aforesaid purpose, any SGI Long Term Surplus Note except with respect to all SGI Long Term Surplus Notes on a pro rata basis and on the same terms; ~~provided, however, that nothing herein shall prohibit or otherwise limit SGI or any of its affiliates from (x) redeeming, purchasing, retiring, converting, exchanging or otherwise acquiring for consideration from time to time any or all SGI Long Term Surplus Notes from one or more holders thereof at less than par value, with no obligation to extend any such offer(s) to all holders of SGI Long Term Surplus Notes, or (y) reissuing, selling, transferring, creating or allowing to exist any Lien, security interest or other encumbrance on any SGI Long Term Surplus Notes so acquired pursuant to clause (x);~~

(ii) SGI will not make any distribution, whether in cash, property, securities or a combination thereof, to the holders of the SGI Short Term Surplus Notes (in their capacities as such) or pay, or commit to pay, or directly or indirectly redeem, repurchase, retire, prepay, convert, exchange or otherwise acquire for consideration, or set apart any sum for the aforesaid purpose, any SGI Short Term Surplus Note except with respect to all SGI Short Term Surplus Notes on a pro rata basis and on the same terms; ~~provided, however, that nothing herein shall prohibit or otherwise limit SGI or any of its affiliates from (x) redeeming, purchasing, retiring, converting, exchanging or otherwise acquiring for consideration from time to time any or all SGI Short Term Surplus Notes from one or more holders thereof at less than par value, with no obligation to extend any such offer(s) to all holders of SGI Short Term Surplus Notes, or (y) reissuing, selling, transferring, creating or allowing to exist any Lien, security interest or other encumbrance on any SGI Short Term Surplus Notes so acquired pursuant to clause (x);~~

(iii) SGI will not merge or consolidate or sell, assign, transfer or dispose of (including by way of reinsurance) all or any material portion of its assets, other than (v) in connection with matters permitted by Schedule 5.13-B, (w) paying claims, (x) in

connection with Remediation Efforts with respect to SGI, (y) the disposition of investments in accordance with its investment policy or (z) as otherwise permitted or required by this Agreement, any Ancillary Agreement or any Tax Sharing Agreement. SGI will not create or suffer to exist any Lien, security interest or encumbrance on its assets other than Permitted Liens;

(iv) SGI will at all times own, beneficially and of record, all of the equity interests of DropDownCo;

(v) SGI will not pay any dividend, repurchase, redeem, exchange or convert any of its equity securities (or of any of its direct or indirect parent) or make investments (other than pursuant to its investment policy, incidental to Remediation Efforts with respect to SGI or as set forth on Schedule 5.14);

(vi) SGI will not issue any surplus notes or other similar securities that are preferred to common or preferred equity but junior in right of payment to indebtedness or policy obligations, ~~other than the SGI Surplus Notes, or surplus notes or similar securities that are junior~~² to the SGI Surplus Notes~~}; and~~;

(vii) SGI will not (A) incur any indebtedness for borrowed money; provided, that nothing in this clause (A) shall prohibit SGI from incurring up to \$250 million of indebtedness for borrowed money for purposes of ~~liquidity management~~ ~~or~~ (B) incur any material voluntary obligation other than obligations pursuant to this Agreement or any Ancillary Agreement to which it is a party or in connection with Remediation Efforts with respect to SGI or in the ordinary course of its business consistent with its obligations under this Agreement.”

Section 3. Waiver. In accordance with Section 8.06 of MTA II, the undersigned hereby waives compliance with the restrictions set forth in Section 5.13(g)(D) of MTA II, in order to permit SCAI to enter into the Conditional Surplus Note Purchase Agreement with SGI on the terms set forth in Exhibit A hereto.

Section 4. Miscellaneous.

4.1 Except as specifically set forth herein, the terms of this Waiver and Amendment shall not be deemed to be a consent, waiver or modification with respect to any term, condition or obligation of any of the Parties in MTA II and shall not obligate any of the Parties to agree to any other amendment to MTA II.

4.2 This Waiver and Amendment may be executed and delivered in multiple counterparts, each of which, when so executed and delivered, shall be an original, but such counterparts shall together constitute but one and the same instrument and agreement. A facsimile or Portable Document Format copy of a signature shall have the same force and effect as an original signature.

² [For the avoidance of doubt, “junior” shall mean that no payment may be made under such surplus notes or similar securities until the SGI Surplus Notes have been repaid in full.](#)

4.3 This Waiver and Amendment is to be interpreted under and governed by the Laws of the State of New York without giving effect to conflicts of law provisions thereof that would make the law of any other jurisdiction applicable to this Waiver and Amendment. In the event that there is a dispute between or among the Parties arising under this Waiver and Amendment, the Parties (i) agree that the exclusive forum to seek remedy shall be to institute a legal proceeding in the courts of the State of New York located in the City and County of New York and the United States District Court for the Southern District of New York and (ii) hereby expressly submit to the personal jurisdiction and venue of such courts for the purposes thereof and expressly waive any claim of lack of personal jurisdiction and improper venue and any claim that such courts are an inconvenient forum. Each Party hereby irrevocably consents to the service of process of any of the aforementioned courts in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the address provided to the Parties in accordance with Section 8.02 of MTA II, such service to become effective ten (10) days after such mailing.

4.4 Each of the Parties hereby waives to the fullest extent permitted by applicable Law any right it may have to a trial by jury with respect to any litigation directly or indirectly arising out of, under, or in connection with this Waiver and Amendment. Each of the Parties hereby (i) certifies that no representative, agent or attorney of any other Party has represented, expressly or otherwise, that such other Party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it has been induced to enter into this Waiver and Amendment by, among other things, the mutual waivers and certifications in this Section 4.5.

4.5 Each Party has had the opportunity to negotiate the terms, consult with counsel, and modify the provisions of this Waiver and Amendment. Therefore, the terms of this Waiver and Amendment will be considered and interpreted without any presumption, inference or rule requiring construction or interpretation of any provision of this Waiver and Amendment against the interests of the drafter of this Waiver and Amendment.

[Signature Pages Follow]